

MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS COMMITTEE
September 14, 2004 at 1:00 p.m.
Room W135, House Building

Members Present: Sen. Leonard Blackham, Co-chair
 Rep. Ron Bigelow, Co-chair
 Rep. Rebecca Lockhart, Vice-Chair
 Sen. Bill Hickman, Vice-Chair
 Sen. Ron Allen
 Sen. Gene Davis
 Sen. Mike Dmitrich
 Sen. Karen Hale
 Sen. Peter Knudson
 Pres. Al Mansell
 Sen. John Valentine
 Sen. Michael Waddoups
 Rep. Greg Curtis
 Rep. Brent Goodfellow
 Rep. Patricia Jones
 Rep. Brad King
 Rep. Karen Morgan
 Speaker Martin Stephens
 Rep. Michael Styler

Members Excused: Rep. Jeff Alexander

Staff Present: John E. Massey, Legislative Fiscal Analyst
 R. Michael Kjar, Deputy Director, Fiscal Analyst
 Sandy D. Tenney, Secretary

A list of visitors and a copy of handouts are filed with the minutes.

Committee Co-Chairman Blackham called the meeting to order at 1:10 p.m.

Committee Business

1. Approval of Minutes

Motion: Sen. Ron Allen made a motion to approve the minutes of August 17, 2004. The motion passed unanimously with Senators Allen, Davis, Dmitrich, and Mansell and Representatives Jones, King, and Morgan absent at the time of voting.

2. State Retirement and Public Employees Health Plan

Mr. Robert Newman, Director of State Retirement, and Mr. Lynn Baker, Director of Public Employees Health Program (PEHP), addressed the committee.

Mr. Newman reviewed contribution rates for the 2005/2006 fiscal year. He distributed a schedule and brief history of contribution rates. He described demographic assumptions (active member, retired members' death rates, and disabled members' death and/or frequency of recovery) and economic assumptions (affected by investment returns, salary scale, rate of inflation, and payroll growth). Actuaries use all of these factors in determining annual contribution rates.

Mr. Newman referred the committee to a second handout - a historical perspective of contribution rates. Contribution rates have fluctuated over the years, with the current year rate at 13.38%. Because of two conditions, the rate will remain constant for the 2005/2006 fiscal year: (1) for the year 2003, Retirement had a 26% investment return and (2) employee salaries have not been going up. Mr. Newman pointed out that contribution rates will continue to fluctuate due to the huge variables in investment earnings.

Rep. Greg Curtis asked if the calculations are based on a calendar year or fiscal year. Mr. Newman responded that calculations are on a calendar year basis.

Mr. Baker, Director of PEHP, cited a Sept 10, 2004 USA Today article which describes the continuing escalation of health care costs. The article reports employer costs increasing at double-digit rates for the fourth straight year and Mr. Baker's projections are for double-digit increases in the 2005 calendar year.

A PEHP report, "PEHP Trended Claims Projections Plan Year 2005-2006," was distributed to the committee summarizing projections for FY06. The report details claims trends as follows: medical trends at 11.75% and pharmacy trends at 12%, with combined medical and pharmacy trends at 11.80%. For state employees only (about 1/3 of what is budgeted for all state and education employees), \$20 million in new money will be required to fund these increases. Similar trends and resultant increases are expected for higher education and public education employees.

Dental rates are going up at a more modest rate, currently at 6%.

Mr. Baker suggested that the health care industry is caught somewhere between regulation and the competitive marketplace. His theory is that unless something is done in the marketplace to make competition work, we will wind up, by default, socializing the health care system in the United States.

There were no questions from the committee for Mr. Baker.

3. Special Session Legislation

Co-Chair Blackham reported that there are two proposed appropriations bills for the Fourth Special

Session, scheduled for September 15, 2004. He reminded all present that this committee meeting will function as a public hearing on the two proposed appropriations bills.

S.B. 4003, Supplemental Appropriations Act II Amendments - Redirection of Certain Federal Funds to Inmate Housing, was explained by Sen. Blackham. The bill redirects \$1.5 million of VOI/TIS money for capital improvements in the Department of Corrections (see page 2, lines 41-43 of S.B. 4003).

MOTION: Sen. Allen motioned to recommend S.B. 4003 to the legislature for the 4th Special Session. There was no discussion to the motion; the motion passed on a unanimous vote of all committee members present.

Rep. Bigelow presented 1st Sub H.B. 4001, Supplemental Appropriations Act III - Range Creek. Committee discussion followed regarding jurisdiction and funding needs for Range Creek which rest with the Department of Natural Resources and the University of Utah. A need for immediate one-time funding of \$152,000 has been requested to continue preservation of the site for the current fiscal year.

Discussion and questions were heard from Speaker Stephens, Sen. Valentine, Rep. Goodfellow, Rep. Styler, Sen. Allen, Rep. King, Sen. Blackham, and Rep. Morgan. The discussion centered on the two versions of H.B. 4001: the original bill that was emailed to Legislators and the draft of 1st Sub H.B. 4001 currently before the committee.

MOTION: Sen. Hale moved to recommend 1st Substitute H.B. 4001 to the Legislature for consideration during the 4th Special Session.

MOTION: Speaker Stephens moved a substitute motion to fund the \$152,000 by moving \$75,000 from funds originally appropriated to the University of Utah for cataloging and preservation efforts at the Range Creek site and \$75,000 to come from one-time General Fund surplus funds.

Rep. Bigelow, Rep. Curtis and Speaker Stephens discussed various aspects of the current preservation activities and security issues at the Range Creek site.

Senator Blackham opened the discussion to the audience for public comment.

Sarah George, Director of the Utah Museum of Natural History, spoke to the committee regarding current program expenses.

Sen. Valentine amended Speaker Stephens' motion by clarifying that \$77,000 would be required to come from General Fund surplus and \$75,000 from the University of Utah to equal the \$152,000 appropriation.

Speaker Stephens' substitute motion failed, with Representatives Styler, Curtis, Bigelow and Stephens

voting in the affirmative, all other members of the committee voting in the negative.

MOTION: Co-chair Blackham called the question on Sen. Hale's original motion. The motion passed with Representatives Styler, Curtis, Bigelow and Stephens voting in the negative; all other members present voted in the affirmative.

4. Federal Funds Report

Sophia DiCaro, Federal Assistance Management Officer, Governor's Office of Planning and Budget (GOPB), and Richard Ellis, Director of GOPB, referred the committee to a report of applications requiring legislative action and applications approved by the Governor's office.

MOTION: Rep. Styler made a motion to approve the Federal Assistance Applications requiring legislative action as listed in section four in binder materials for Executive Appropriations meeting of 14 September 2004.

The motion passed with a unanimous vote of all members present.

5. Full-Time Equivalent Employees Report

A report was made to the committee by Jonathan Ball, Information Technology Manager. He referred the committee to a report titled "Trends in State Employment FY 2000 - FY 2004, a Report to the Executive Appropriations Committee" dated 14 September 2004, compiled by Jonathan Ball, Benjamin Leishman and Stan Eckersley of the Legislative Fiscal Analyst's Office.

Mr. Ball discussed the difficulty in ascertaining how state entities, specifically school districts, determine FTE's.

The Trends report addresses four questions:

- (1) What is Full-Time Equivalent (FTE) and how is it measured?
- (2) What has been the trend in actual FTE employment for the past five years and how does it compare with appropriations?
- (3) Does a correlation exist between dollars appropriated and actual employment?
- (4) To what extent can appropriations alone explain variations in employment levels?

Mr. Ball's recommendation is that the Legislature direct the State Board of Education to develop a common definition of full-time equivalent employment to be used by all state school districts and charter schools. Secondly, the Analyst recommends that the legislature ask the State Office of Education to collect data using the new common definition beginning in FY 2005 both retrospectively for each of the past five years, as well as prospectively.

Rep. Jones asked what types of jobs were eliminated in state agencies and if there were agencies who eliminated a disproportionate number of jobs.

John Massey, Legislative Fiscal Analyst, referred the committee to a table on page 11 of the Trends report which illustrates the growth and decline of FTEs in state agencies.

Sen. Hickman asked for clarification on Mr. Ball's recommendation regarding a new definition of FTE for public education. Does this solve the difference in reporting by the school districts on classified and certificated employees?

Mr. Ball noted that his understanding is that the State Office of Education has considered, in the past, a common definition of FTE, but this definition has not been implemented by every district.

Rep. Goodfellow asked for clarification on the impact on reporting the number of FTE's with regards to part-time, adjunct and full-time employees.

Boyd Garriott, Fiscal Analyst, explained the correlation between student growth, increases in fees and tuition, growth in faculty, and legislative appropriations.

Sen. Valentine noted that the report shows a 20% increase in FTEs in the School and Institutional Trust Lands Administration.

Steven Allred, Fiscal Analyst, responded that the Trust Lands Administration Board aggressively seeks revenues, resulting in a growth in FTEs. The funding for the FTEs are self-generated by an increase in revenues received by Trust Lands Administration.

Sen. Hickman requested that the Fiscal Analyst Office develop a report on the level of change (over a 10-year period of time) in FTE's in the Department of Natural Resources, specifically, the Division of Wildlife Resources.

Sen. Waddoups referred to the chart on page 15 (Appendix C) of the FTE report. He noted that the report shows minimal growth in the number of teachers, yet there was a noticeable increase in the number of support personnel and a tremendous jump in number of classified personnel starting in 2002.

Ben Leishman, Fiscal Analyst, explained that the large increase in numbers of classified personnel is probably due to reclassifications. He noted that two of the state's largest school districts, Jordan and Alpine, previously were not counting hourly employees. He recommends that there be a standard definition as to what classified employees are.

Michael Kjar, Deputy Legislative Fiscal Analyst, clarified that the minimal increase in numbers of teachers compared to the large increase in classified personnel is due to school districts hiring more

teacher aides (instead of teachers) or classifying positions using disparate methods.

Mr. Ball concluded that the need for a standard definition of FTE is evident due to the problems in obtaining reliable data from public education.

MOTION: Sen. Waddoups made a motion to recommend that the Public Education Committee create a standard for counting FTE's.

A discussion followed, with Sen. Valentine and Sen. Knudson clarifying that the recommendation be made to the State Board of Education (instead of the Public Education Committee) to create a common definition of FTE, and to include a request for common definitions for classified and certificated personnel employed by the school districts.

SUBSTITUTE MOTION: Sen. Valentine made a substitute motion to direct the State Board of Education to develop a common definition of FTE to be used by all state school districts and charter schools, and to develop a common definition for classified and certificated employees. The Board of Education will be directed to report back to the Public Education Committee for further evaluation and action on the recommendation. A copy of this report should be submitted to the Public Education Interim Committee for review.

Rep. Goodfellow questioned if the Board of Education will be required to develop the definition and then gather the information regarding FTE's.

Sen. Valentine responded in the affirmative.

Sen. Blackham called the question on Sen. Valentine's substitute motion. The motion passed with all members present voting in the affirmative.

6. In-depth Budget Review - Division of Business and Economic Development

Andrea Wilko, Legislative Fiscal Analyst, gave an overview of the budget review and statutory responsibilities for the Division of Business and Economic Development. The Economic Development and Human Resources Appropriations Subcommittee has a scheduled public hearing on Thursday, September 16, 2004.

The Division of Business and Economic Development is responsible for expansion, creation of new businesses, and attracting new businesses that meet the needs of Utah's workforce. The division works to develop both urban and rural programs so that the needs of the state are served.

The Division's responsibilities include Enterprise Zones, Centers for Excellence, the Industrial Assistance Fund, the state's Advisory Council on Science and Technology, the Community

Development Project Fund, Recycling Marketing Zones, the Fund of Funds, and Aerospace and Aviation Development Zone.

Speaker Stephens asked if an analysis has ever been done on the effectiveness and benefits of trade missions and trade representatives. Does the state actually receive or develop business from the trade missions? Has there been a cost-benefit analysis? On what is effectiveness based? How do we measure effectiveness?

Ms. Wilko referred the committee to page 45 of her report. The performance measures of each of the division's programs have taken into account the number of businesses contacted and what kind of return on investment has ensued. The division tracks number of business seminars and number of trade shows.

Speaker Stephens suggested that tracking and evaluation needs to occur as to the number of businesses that actually do business with the state based on the state's trade mission expenditures.

Mark Renda, Director of Incentive Funds for the state of Utah, gave an overview of incentive programs, specifically the Industrial Assistance Fund. A 15-member Board of Economic Development provides policy direction to the incentive programs and to the division. Seven members of this board comprise an Incentive Committee. The Board is appointed by the Governor.

In the past, the Board of Economic Development provided up-front loans for which the companies, as they created jobs, would retire loans over time. In 2000, the Board made a policy shift. For the past four years, post-performance grants have been provided.

Assistance to the applicants is based on a system of earned credits. An appropriation of \$4.4 million is requested to replenish the fund, based on earned credits for the past year.

Companies must achieve contractual milestones to earn credits: the number of jobs created, the salary scale of the jobs compared to the county's median wage, and a demonstrated increase in economic activity are a few of the factors involved in this process.

Mr. Renda reviewed the application process and the criteria that the committee considers before making incentive recommendations to the full board. Historically, 25% of commitments made by the Board do not result in a company coming to Utah. Companies have a one-year timeframe in which to enter into a contractual agreement with the State of Utah after an incentive offer has been made.

Board policies were explained by Mr. Renda.

Discussion, questions, and comments were heard from Senators Hickman and Dmitrich.

Co-Chair Blackham asked that the co-chairs of the appropriations subcommittee report to Executive

Appropriations at the end of the year with a detailed study of the report and recommendations for further action. Mr. Massey indicates he will include this issue on the agenda for later in the year.

7. Revenue and Lease Bond Report

Fiscal Analyst John Massey directed the committee to a report found in discussion materials: Revenue Bonding by the State Building Ownership Authority and the State Board of Regents. He indicated that revenue and lease-revenue bonding are receiving greater legislative scrutiny than ever, and state agencies do not appear to be increasing office space through lease-revenue bonding.

MOTION: Rep. Styler made a motion to adjourn at 2:55pm. The motion passed unanimously.

Minutes reported by Sandy D. Tenney, Secretary

Handouts:

- * 2004 S. B. 4003 Supplemental Appropriations Act II Amendments - Redirection of Certain Federal Funds to Inmate Housing (Blackham)
- * 2004 1 Sub H.B. 4001 Supplemental Appropriations Act III - Range Creek (Bigelow)
- * Federal Assistance Applications Requiring Legislative Action (GOPB)
- * Trends in State Employment FY 2000 - FY 2004 - A Report to the Executive Appropriations Committee
- * In Depth Budget Review for the Division of Business and Economic Development - A Report to the Executive Appropriations Committee
- * Revenue Bonding by the State Building Ownership Authority and the State Board of Regents